

April 15, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

FISCAL YEAR 2003-04 PROPOSED COUNTY BUDGET (3-VOTES)

The FY 2003-04 Los Angeles County Proposed Budget total of \$16.5 billion reflects a decrease of \$329.1 million in total requirements. General County funds reflect a net decrease of \$505.5 million, including the General Fund (-\$ 328.9), Debt Service Funds (-\$1.4 million) and Hospital Enterprise Funds (-\$175.2 million). Special Districts/Special Funds reflect an increase of \$176.4 million.

TOTAL REQUIREMENTS - ALL FUNDS - 2003-04 (billions of dollars)				
Fund	2002-03 Budget	2003-04 Proposed	Change	% Change
Total General County	\$ 13.920	\$ 13.415	\$ -0.505	-3.6
Special Districts/Special Funds	2.935	3.111	+0.176	+6.0
Total Budget	\$ 16.855	\$ 16.526	\$ -0.329	-2.0
Budgeted Positions	92,713.9	90,555.6	-2,158.3	-2.3

BUDGET OVERVIEW

The FY 2003-04 Proposed Budget continues the County's conservative budgetary approach in response to the ongoing economic instability on the national and State levels. In addition, a structural imbalance is emerging in our local budget as some of the County's primary revenue sources are slowing down or declining. Still looming, and not fully addressed at this time, is the greater uncertainty presented by unresolved issues associated with the State's budget.

The County faces the challenge of maintaining acceptable levels of service to its citizenry while financial resources are failing to keep pace with inflationary increases, caseload growth in mandated programs, and the emergence of other critical needs. Based upon the information available at this time and without corrective action, we were forecasting a \$205.4 million structural deficit in the General Fund going into FY 2003-04. The recommendations contained in the Proposed Budget eliminate the deficit through a combination of one-time and ongoing measures. To mitigate the problem, we are recommending use of \$109.7 million from reserves to close that portion of the deficit related to one-time costs such as food stamp error rate sanctions, prior year overhead for lifeguards, internet infrastructure, the Los Angeles County Administrative System and un-reimbursed claims for State mandates. Also, we have deferred \$5.1 million in costs associated with the Department of Justice investigation of juvenile halls and \$4.7 million in Extraordinary Maintenance costs. Further, property tax revenue is estimated to increase by \$20.0 million over our initial forecast. The remaining gap is closed through recommended curtailments in net County costs totaling \$66.1 million as detailed below.

CURTAILMENTS TO CLOSE THE COUNTY'S STRUCTURAL DEFICIT (\$-66,107,000)

Public Safety

- Agricultural Commissioner/Weights and Measures (-\$211,000) - eliminates 4.0 positions involved in the investigation of business practices.
- Coroner (-\$211,000) - eliminates 2.0 positions in the post-graduate residency program as well as some services and supplies and equipment items.
- Office of Public Safety (-\$1,136,000) - eliminates 17.0 positions reducing patrols at various venues.

Public Safety (cont'd)

- Lifeguards (-\$2,114,000) - eliminates 18.4 lifeguard positions, reduces summer beach staffing and hours of coverage, and eliminates the Lifeguard Training Academy and the Swift Water Rescue Team.
- Sheriff (-\$14,000,000) - eliminates 173.0 budgeted positions and calls for program reductions in many areas; including court services, community outreach services, training, traffic investigations, and reserve/volunteer coordination.

Public Justice

- District Attorney (-\$3,293,000) - eliminates 25.0 positions and would curtail investigative and prosecutorial activities in the areas of hate crimes, high technology crimes and family violence.
- Probation (-\$10,353,000) - eliminates 119.0 positions and requires the closure of Camp Rockey and elimination of the School-Based Supervision and Community Detention Programs.

Recreation and Cultural

- Arts Commission (-\$334,000) - reflects a 7.0 percent reduction in the Internship Program and a 10.0 percent reduction in grant funding for arts organizations.
- Beaches and Harbors (-\$1,233,000) - achieves a net County cost reduction through increased parking fees.
- Parks and Recreation (-\$3,624,000) - eliminates 67.0 positions and calls for return of Castaic Lake and Placerita Canyon Natural Area to the State, the reduction of trail maintenance activities, increased conservation of electricity and water and a reduction in capital project management.
- Public Library (-\$7,264,000) - eliminates a one-time allocation of net County cost necessitating significant curtailments in library hours and possible library closures and consolidations.

Health

- Health Services (-\$9,800,000) - reflects the County's decision to charge the department for general County overhead.

General Government

- Administrative Officer (-\$1,500,000) - eliminates 14.0 positions in administration; public affairs; marketing; and emergency, asset and budget management.
- Assessor (-\$2,000,000) - reflects an increase in revenue to meet the maintenance-of-effort requirement.
- Auditor-Controller (-\$1,500,000) - eliminates 13.0 positions in various programs and reflects receipt of increased revenues from property tax collection services.
- Board of Supervisors (-\$400,000) - reflects a reduction in services and supplies that is spread evenly over all program areas.
- Chief Information Officer (-\$113,000) - eliminates one position for information technology coordination.
- County Counsel (-\$281,000) - reflects a reduction in non-reimbursable house counsel services to general fund departments.
- Human Resources (-\$490,000) - eliminates one position associated with the County's participation in job fairs and reduces funding for the Training Academy by approximately 12 percent.
- Internal Services (-\$500,000) - eliminates 1.0 facility service coordinator and reduces services and supplies, including funding for Internet Infrastructure.
- Public Works (-\$1,700,000) - reduces net County cost support for engineering functions and special projects, necessitating increased reliance on fees and requestor payment.
- Registrar-Recorder (-\$2,500,000) - Reflects a one-time permissible use of Modernization Trust Fund revenues.
- Treasurer and Tax Collector (-\$1,550,000) - eliminates 31.0 positions from nearly every program area.

HEALTH SERVICES (-\$174,500,00)

The Department of Health Services' budget reflects the continued implementation of Scenario III of the Department's System Redesign Plan, resulting in savings of \$174.5 million.

The Proposed Budget also reflects:

- Use of \$197.5 million from the Health Services designation, primarily to offset the loss of Section 1115 Waiver Medicaid Demonstration Project (Waiver) revenues, increased costs for budgeted positions to comply with nurse-to-patient staffing requirements and to expand Waiver-related programs, increases in pharmaceutical costs, increases in previously negotiated and approved salaries and employee benefits, as well as other fixed employee benefits, and increases in overhead charges from other County departments.
- A net decrease of 642.3 positions, consisting of a decrease of 1,525.8 positions related to the closure of Rancho Los Amigos National Rehabilitation Center and the outsourcing of Office of Managed Care/Community Health Plan administrative activities, partially offset by an additional 883.5 positions for the nurse-to-patient staffing requirements and Waiver-related programs, as well as public health, environmental health, HIV/AIDS and family medicine programs.

ABSORPTION OF COST INCREASES OR FUNDING REDUCTIONS (-\$226,600,000)

In addition to the specific curtailments discussed above, County departments, including Health Services and the special districts, were required to absorb a number of significant cost increases in the areas of employee benefits. Specifically, Workers' Compensation costs increased by \$57.0 million, Retiree Health Insurance by \$36.1 million, Long-Term Disability by \$1.0 million and Unemployment Insurance Benefit costs increased by \$2.0 million.

Some of the significant program reductions required to absorb cost increases and funding reductions include:

- Department of Children and Family Services - \$21.7 million reduced appropriation in Administration, primarily due to a reduction in federal Emergency Assistance - Temporary Assistance to Needy Families funding during 2002-03.
- Department of Public Social Services - \$103.9 million reduced appropriation in Administration and the elimination of 232 positions. This is primarily due to

funding reductions for the California Work Opportunities and Responsibility to Kids (CalWORKs) Program, partially offset by an increase in funding for Medi-Cal eligibility administrative costs, and the elimination of \$138.5 million in Performance Incentive funding.

- Department of Community and Senior Services - \$13.0 million decrease in overall appropriation and the elimination of 11 positions, primarily due to reductions in federal funding in the Employment and Training and Aging and Adult Services programs, and a reduction in the Long-Term Family Self Sufficiency Youth Jobs and Mini-Career Centers projects.
- Child Support Services Department - \$0.6 million decrease in appropriation and the elimination of 7 positions due to a reduction in State revenue.
- District Attorney - \$1.3 million and 13.0 positions handling Hardcore Gang/Asian Gang cases, quality of life cases, as well as administrative staff reductions.
- Department of Parks and Recreation - \$0.4 million and 8.0 positions that will shorten the pool operations season by two weeks and reduce ground maintenance activities.
- Sheriff's Department - \$61.4 million and 407.0 positions which will result in the elimination of the remaining Community Oriented Policing Services personnel, partial closure of various custody facilities resulting in the likely release of 2,600 misdemeanants, realignment of Trial Court Funding services, and a reduction in overtime funding.
- The Road Fund budget for the construction and maintenance of local streets and roads in FY 2003-04 reflects a reduction of \$24.3 million due to anticipated cuts in State allocations under AB 2928.

IMPLEMENTATION OF COUNTYWIDE STRATEGIC PLAN

On December 17, 2002, your Board adopted the first revision to the Countywide Strategic Plan, replacing all existing Strategies and adding three programmatic Goals (see below), with attendant Strategies. Consistent with efforts over the past few years, the Plan is being increasingly integrated with the budget submission, analysis and recommendation process. Given the constraints on overall funding, departments prepared their requests mindful of preserving and enhancing, to the extent feasible, key priorities as reflected in the Countywide Strategic Plan as well as their departmental strategic plans. Our recommendations reflect reallocation of limited resources to

address higher priority program requirements, and maximization of reliable, ongoing revenues, thereby mitigating curtailments. Among the new or expanded initiatives responsive to specific Strategic Plan Goals which we are recommending that departments pursue, despite limited funding, are the following:

Goal No. 1 - Service Excellence: Provide the public with easy access to quality information and services that are both beneficial and responsive.

- The Proposed Budget provides \$750,000, including State funding, to commence an update of the Assessor's valuation system. This project will convert the existing system from an obscure old programming language and help ensure accurate and timely assessments of properties within the County. Further, the system will provide a customer friendly environment in which other County departments can access non-confidential property information.
- Alternative uses for MacLaren Children's Center (MCC) funding: The Proposed Budget reflects the redirection of \$17.8 million in net County cost savings resulting from the closure of MCC to fund alternative services and placement resources for the population of youth formerly served by MCC. The Department of Children and Family Services' 2003-04 Proposed Budget includes \$8.3 million for this purpose. The remaining \$9.5 million is budgeted in Provisional Financing Uses (PFU) pending finalization, and Board approval, of plans currently under development to provide services to children.

Goal No. 2 - Workforce Excellence: Enhance the quality and productivity of the County workforce.

- Despite significant curtailments required in General Fund departments, the Proposed Budget preserves 88 percent of current funding for the Department of Human Resources' Training Academy.
- The proposed Budget maintains funding for the Labor/Management Retraining Fund at \$1,554,000. This fund can assist employees in obtaining new employment if layoffs become necessary.

Goal No. 3 - Organizational Effectiveness: Ensure that service delivery systems are efficient, effective, and goal-oriented.

- The Proposed Budget provides \$1.0 million and 7.0 positions in the Alternate Public Defender to expand services to courts not currently served. The Proposed Budget also provides \$1.2 million and 10.0 positions in the Public Defender's Office to reduce instances of unavailability and avoid the higher costs of court-appointed attorneys.
- The Proposed Budget provides for a reallocation of \$1.2 million within the Probation Department, combined with a Productivity Investment Fund loan of \$500,000, to provide financial support to 4.0 positions dedicated to implementation of information technology projects that will improve the functionality and effectiveness of the juvenile case management system and the adult automated reporting system.

Goal No. 4 - Fiscal Responsibility: Strengthen the County's fiscal capacity.

- The Proposed Budget reflects \$10.0 million in unspecified service reductions in the Department of Mental Health's budget. This is the first phase to reduce a structural shortfall in DMH's budget, which includes \$35.9 million in one-time funding sources in 2003-04. DMH is in the process of developing a multi-year curtailment plan that will reduce services to indigent clients.
- To avoid program impact in General Fund departments, the Proposed Budget provides financing of \$28.7 million for the non-reimbursable portion of the last increment of previously negotiated increases in salaries and employee benefits.

Goal No. 5 - Children and Families' Well-Being: Improve the well-being of children and families in Los Angeles County as measured by the achievement in the five outcome areas adopted by the Board: good health; economic well-being; safety and survival; social and emotional well-being; and educational/workforce readiness.

- The Department of Mental Health reflects a \$33.0 million expansion of mental health services provided by contract providers, primarily to Medi-Cal eligible children, partially funded by State Early and Periodic Screening, Diagnostic, and Treatment and Federal Financial Participation Medi-Cal revenues. It also includes a \$4.9 million restoration to the CalWORKs mental health program, which provides individual and family-focused treatment and community-based interventions to CalWORKs participants and their families.

- The Department of Public Social Services' (DPSS) budget reflects 141.0 additional positions and \$7.2 million in appropriation due to a projected increase in the Non-Assistance Food Stamps caseload, attributed to continuing outreach efforts including partnerships with Community Based Organizations to increase the ability of low-income families to purchase sufficient and nutritious food.
- The Proposed Budget for DPSS also reflects additional funding for the In-Home Supportive Services (IHSS) program to support a projected increase in caseload and to ensure supportive services are provided to aged, blind, or disabled persons who are unable to perform the services themselves and who cannot safely remain in their own homes unless such services are provided. DPSS' budget reflects an additional 75.0 positions, \$3.8 million in administrative appropriation, and \$26.6 million for assistance payments.

Goal No. 6 - Community Services: Improve the quality of life for the residents of Los Angeles County's unincorporated communities by offering a wide range of department coordinated services responsive to each community's specific needs.

- The Proposed Budget for Public Works includes \$500,000, which when combined with \$3.6 million from the Information Technology Fund, will enable the Departments of Public Works, Regional Planning, Fire and Health Services/Environmental Health to begin interdepartmental implementation of the Electronic Development and Permit Tracking System (eDAPTS). eDAPTS will provide enterprise, web based automation of and access to the County's systems for land development processing and tracking; land use permit issuance and monitoring; and code enforcement inspection and tracking. It will also provide streamlined automation of the Department of Health Services/Environmental Health permit and inspection processes unrelated to the development process.
- The Proposed Budget continues the Board-approved pilot program efforts to develop station level information on law enforcement service levels, crime statistics, response times, number of calls for services, position allocations and expenditures for the unincorporated communities in each of the five Supervisorial Districts. A goal of the pilot project is to take into account all relevant factors and to establish agreed upon service levels prior to budget deliberations for at least one unincorporated area station in each Supervisorial District, establish how much money is being spent to fund those specific service levels, and track those service levels so that, if the service levels are altered by the Sheriff, the Board of Supervisors is fully aware of the change and its budgetary and law enforcement implications, and so that the Board, like contract cities, can work with the Sheriff to maintain agreed upon service levels.

Goal No. 7 - Health and Mental Health: Implement a client-centered, information based health and mental health services delivery system that provides cost-effective and quality services across County departments.

- The Proposed Budget for the Department of Mental Health (DMH) includes a \$3.5 million reduction in one-time funding budgeted for the 2002-03 Health Insurance Portability and Accountability Act (HIPAA) implementation. However, DMH's HIPAA compliance programs continue, with an additional 3.0 HIPAA-related positions added for 2003-04.
- The Proposed Budget provides \$2.1 million for 12.0 positions in the Department of Health Services to ensure initial compliance with the Health Insurance Portability and Accountability Act (HIPAA) by providing centrally managed privacy and security teams.

Goal No. 8 - Public Safety: Increase the safety and security of all residents in Los Angeles County through well-coordinated, comprehensive responses and recovery plans for terrorists incidents.

- The Proposed Budget adds \$700,000 in federal funds for 4.0 Deputy District Attorney Positions to combat community gun violence.
- The Proposed Budget also includes full-year funding of \$691,000 for the newly created Office of Homeland Security within the Sheriff's Department. Seven positions are added to ensure readiness of Los Angeles County's first responders. In addition, the Office will coordinate with federal and State agencies for the prevention and investigation of terrorist acts and their aftermath. The Sheriff identified the Office of Homeland Security as one of his top priorities for 2003-04 and has realigned his budget to sustain this effort.

CAPITAL PROJECTS/REFURBISHMENTS

The 2003-04 Proposed Budget appropriates \$558.5 million to meet high priority health, public safety, recreation, and infrastructure needs. These projects include additional General Fund support for the construction of Sheriff Stations in Palmdale and San Dimas and for the programming and design of a Sheriff station in the unincorporated area of Athens as well as the County Data Center.

The 2003-04 Proposed Budget also includes funding for the conversion of High Desert Hospital to a Multi-Service Ambulatory Care Center/Skilled Nursing Facility in support of the Department of Health Services System Redesign and the completion of design for

the seismic retrofit of acute care inpatient facilities required under Senate Bill 1953. Further, the Proposed Budget includes a significant increase in appropriation for the LAC+USC Medical Center Replacement Project, offset by State and Federal disaster assistance monies and short-term financing sources, based upon the award of a \$497.9 million contract for construction that your Board awarded in December 2002. Additional appropriation is also reflected for various projects at County parks that are funded by the State's Proposition 12 Bond Act and other revenue sources.

TIMETABLE

Approved schedule for budget hearings and deliberations is as follows:

Board Action	Approved Date
Adopt Proposed Budget; order printing, notice, and distribution; and schedule hearings	April 15, 2003
Commence public budget hearings	May 14, 2003
Commence final budget deliberations, and adopt final budget upon conclusion	June 23, 2003

Prior to deliberations on the FY 2003-04 Final Budget, we will file reports on:

- May revisions to the Governor's budget and updates on other FY 2003-04 State and federal budget legislation and the impact on the County's Proposed Budget;
- Final revisions reflecting latest estimates of requirements/available funds;
- Issues raised in public hearings or written testimony;
- Recommendations on the level of Bond Anticipation Note authorization;
- Specific matters with potential fiscal impact; and
- Issues as instructed by your Board.

APPROVAL OF PROPOSED BUDGET

The matter before your Board is adoption of the Proposed Budget.

- The document must be available for consideration by the public at least 10 days prior to the commencement of public budget hearings.
- Adjustments to the budget, including revisions to reflect your Board's funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Final Budget.
- Per State law, your Board may make changes to the Proposed Budget with a simple majority (3-votes) until adoption of the Final Budget, if changes are based on the permanent record developed during public hearings (e.g., Proposed Budget, budget requests, and all written and oral input by Supervisors, County staff, and the public).
- Changes not based upon the "permanent record" require a 4/5 vote.

THEREFORE, IT IS RECOMMENDED THAT YOUR BOARD:

Order such revisions, additions, and changes to the Chief Administrative Officer's budget recommendations as deemed necessary, and approve the revised figures as the Proposed Budget for FY 2003-04; instruct the Auditor-Controller to have the necessary copies printed; order the publication of the necessary notices; and set May 14, 2003, as the date on which public budget hearings will begin.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer